Alberta airb Automobile Insurance Rate Board

Guidelines for Other than Private Passenger Rating Program

Full Filing for Change in Rates and Rating program

A. GENERAL INFORMATION

Section 602 of the *Insurance Act* and Sections 2, 4 and 5 of the *Automobile Insurance Premiums Regulation* require insurers to make application and obtain prior approval for the establishment of a new rating program or for revisions to an existing rating program for other than private passenger vehicles.

Filing Requirements

The purpose of these Guidelines is to communicate to insurers the requirements for prior approval automobile insurance filings that do not qualify for a Simplified process and to provide a systematic approach through which insurers may provide that information and thus facilitate the process of preparing as well as reviewing these filings.

The *Guidelines for Other than Private Passenger Automobile Rating Program* apply to private passenger miscellaneous classes that would include motorcycles, snow vehicles, all-terrain/off-road vehicles, motorhomes, camper and trailer units, antique/classic vehicles; commercial and interurban vehicles; commercial miscellaneous classes that would include various public transportation vehicles.

An insurer must submit a full filing where:

- it has not previously submitted and received approval for a full filing for all coverage for the category of automobile insurance since July 1, 2014;
- the insurer's annual direct written premiums meet or exceed the level specified below AND the average cumulative rate change for the filed category is 10% or more (calculated in accordance with the instructions in Section 2 of the Filing Guidelines);
- the insurer is filing for a category of automobile insurance that was not previously written by the insurer;
- the insurer has not submitted a full filing for this category within the last 3 years and a rate change of 10% or more is proposed;
- where the insurer proposes to introduce additional rating variables other than discounts;
- where the insurer proposes changes to its algorithm; or
- the insurer is required by the AIRB to submit a full filing.

Categories	Written Premium for Latest Calendar Year
Personal Vehicles – Motorcycles	$1,000,000
Personal Vehicles – Motorized Snow Vehicle	$1,000,000
Personal Vehicles – Off-Road Vehicles	$1,000,000
Personal Vehicles – Motorhomes	$1,000,000
Personal Vehicles – Antique/Classic Vehicles	$1,000,000

Commercial & Interurban	$10,000,000
Public Vehicles	$1,000,000

The AIRB is prepared to exempt insurers that write only fleet or experience rated risks from the full filing requirements. The insurer would not be required to file an underlying rating program, but rather the insurer must submit a letter describing its automobile underwriting operations, i.e., the categories of vehicles that would be included, and attesting that it restricts its underwriting activity to fleet or experience rated risks and does not issue policies for individually rated risks. The insurer must reconfirm the nature of its underwriting activity on a bi-annual basis.

Filing Format

Subject to the guidelines set forth in Section C, the filing should contain the informational sections, as outlined below, and in the order outlined below:

Section	Contents
1.	Table of Contents
2.	Summary of Information (Appendix A)
3.	Certifications of the Officer and Actuary (Appendix B)
4.	Actuarial Support
5.	Rating Rule Changes
6.	Final Rates/Rate Level Change
7.	Dependent Categories (if applicable)
8.	Manual Pages
9.	Rating Examples (Appendix C)

Approval Process

Filings must be submitted electronically by email to airb@gov.ab.ca or secure document transfer system. The full filing must be compiled into a PDF document. Electronic copies must clearly identify each such requirement, each starting on a separate page within the document(s). Pages must be numbered using “<Section>.<Page>” format (e.g., 10.5 represents the 5th page of section 10).

The AIRB will send an email to the insurer within two (2) business days to acknowledge receipt of a filing. The filing will then be reviewed for completeness based on these Filing Guidelines and the insurer will be informed of any information required to complete the filing.

Once a filing is complete, the AIRB will notify the insurer and proceed to review the technical components of the filing. The AIRB may request further information from the insurer. The AIRB’s target is to provide a decision on a full filing within sixty (60) days from the date that the filing material is complete. The clock stops during office holiday closure.

Once an insurer has received approval of its filing from the AIRB, it must file an electronic copy by email or secure document transfer system of its rate manual, containing the revised rates and rating program, including rating rule changes, with the AIRB within 30 days. The electronic

copy of the rate manual submitted to the AIRB must be identical to any hard copies or versions that are distributed to anyone, including brokers, agents or other vendors. The insurer is obligated to implement the changes in the filing no later than 120 days after the approval date.

Definitions

Affiliated Insurers

Two or more insurers are considered to be affiliated if any of the following criteria are met:

i. one of the insurers is a subsidiary of another insurer
ii. both are subsidiaries of the same body corporate
iii. the insurers are controlled by the same person.

Allocated Loss Adjustment Expenses(ALAE)

All external expenses that can be directly charged to a particular claim file, whether a loss payment is made or not, including:

i. adjuster's accounts (including all disbursements) - excluding staff adjusters;
ii. appraisal costs (including appraisal centre costs) - excluding staff appraisal costs or costs included under (i);
iii. legal expenses including all first party legal costs charged to a particular claim file - excluding staff legal fees or costs or fees included under (i);
iv. all other external claims expenses.

Average Rate

For a Coverage: The average rate for the coverage expressed in premium dollars per insured vehicle for a 12-month policy term.

For Multiple Coverage:

i. For each coverage in question, multiply the average rate for the coverage by the fraction A/B, in which:

   A = the total number of vehicles insured by the Insurer that had that coverage in the most recently completed calendar year; and

   B = the total number of vehicles insured by the Insurer in the most recently completed calendar year;

ii. Add the amounts determined under (i) for each coverage.

Base Rate

The rate that serves as the starting point for developing all other rates by territory, limit of liability, deductible, and all other factors.

Capping	Limiting the impact on premium of revisions to the rating program on a per vehicle basis.
Category of Automobile Insurance	For purposes of these Filing Guidelines, categories of automobile insurance include the following: personal vehicles - private passenger automobiles personal vehicles - motorcycles personal vehicles - motor homes personal vehicles - trailer and camper units personal vehicles - off-road vehicles personal vehicles - motorized snow vehicles personal vehicles – antique/classic vehicles commercial vehicles public vehicles - taxis and limousines public vehicles - other than taxis and limousines The above category titles should be used when possible. If subdivisions of the above categories are made, the insurer should indicate within which of the above categories the subdivisions fall.
Coverage	For the purposes of these Filing Guidelines, Coverage includes the following: Third Party Liability - Bodily Injury & Property Damage Accident Benefits Underinsured Motorist All Perils Collision Comprehensive Specified Perils
Discounting of Claims	The adjustment of claim costs to reflect the time-value of money.
Endorsement	An endorsement (policy change form), approved by the Superintendent, to a contract of automobile insurance. Standard endorsements are issued under a series of SEF numbers. Non-standard or conditional endorsements, which must also be approved by the Superintendent, are uniquely identified for each insurer. For purposes of these Filing Guidelines, Underinsured Motorist - SEF 44 is treated as coverage, rather than as an endorsement.
Fleet	1. There must be at least five power vehicles to constitute a fleet; 2. The automobiles in the group meet one of the two below sets of criteria:

	i. The automobiles are under common ownership or management. Long term leasing (more than thirty (30) days) of vehicles is a common way to acquire vehicles and lessees are responsible for such vehicles. Therefore, leased vehicles are considered as the equivalent of owned vehicles for the purpose of determining whether the risk qualifies as a fleet. Or, ii. The automobiles are available for hire through a common online-enabled application or system for the pre-arrangement of transportation, and insured under the Alberta Standard Automobile Form – Transportation Network S.P.F. No. 9 ("SPF9") in which the automobile owner or lessee, as the case may be, has coverage as an insured named in the contract; and 3. At least five of the automobiles in the group are commercial vehicles, public vehicles or vehicles used for business purposes. An automobile policy that insures a fleet may also include personal use vehicles, providing the risk first satisfies the aforementioned criterion.
Profit Provision	The percentage of the premium targeted to provide for a reasonable profit level.
Prior Approval	Insurers must have their rates and rating programs approved before use in accordance with legislation. The prior approval system applies to: insurance written by the Facility Association; coverage as defined for private passenger automobiles and other risks written on SPFs 1 and 4.
Rate	All amounts payable as premium under contracts of automobile insurance, or endorsements to such contracts, for an identified risk exposure. Rates may be expressed in terms of dollars and/or in terms of multiplicative or additive factors to be applied to a base premium amount. Rates are to include all provisions reflecting surcharges/discounts for applicable risk exposures. Rates are to be inclusive of commissions and other expense provisions used by the insurer, and are to be considered prior to the granting of policyholder dividends. Rates are subject to the provisions of legislation.
Rate Differentials/Relativities	Multiplicative or additive factors/rates that are applied to the base rate to arrive at the rates for individual risk profiles.

Rating Algorithm	The manner in which base rates, rate differentials, and other surcharges/discounts are combined to arrive at the premium charged to an individual risk profile.
Rating Program	The elements used for the purpose of classifying risks in the determination of rates for a coverage or category of automobile insurance, including the variables, criteria, rules and procedures for that purpose.
Rating Rule	A rule by which a risk is assigned to a specific rating cell or by which a discount or surcharge is applied. Examples include rules by which territory, driver classification and vehicle rating group are assigned. Rating rules differ from underwriting rules that involve the decision to accept or decline a risk (for other than private passenger).
Reversal	A reversal is present in the increased limit factors if an insured pays marginally more for each additional $1,000 of coverage; a reversal is present in the deductible relativities if an insured is paying marginally more for each additional $100 of deductible level.
Unallocated Loss Adjustment Expenses(ULAE)	All claims settlement and processing costs, excluding ALAE, but including staff adjusters, appraisers, advisors, lawyers, clerical support, and a portion of general expenses reasonably attributable to the claims function that cannot be directly assigned to a specific claim.
Underwriting Rules	Those rules that govern the decision by an insurer to accept or decline a risk, coverage or endorsement.

B. GUIDELINES FOR OTHER THAN PRIVATE PASSENGER AUTOMOBILE - FULL FILING

SECTION 1: TABLE OF CONTENTS

This section contains a listing of the contents of Sections 2 through 9 of the filing and should be in sufficient detail to serve as a reference, by page number, for the location of specific elements of the filing.

SECTION 2: SUMMARY OF INFORMATION

The summary section contains certain key information on the nature of the proposed rate level or rating program changes. The form to be used is attached to this document as Appendix A. All data used in the Actuarial Support section (Section 4) should reconcile to the information presented in Appendix A.

Specific instructions to complete the Appendix are outlined below:

- In responding to Question 1, check **all** the items that are applicable to the filing. While 1.a) and 1.b) are mutually exclusive, other changes [listed in 1.c) through 1.l)] may be applicable.

- In responding to Question 2, proposed effective dates are to be listed for both new and renewal business. If there are any changes to the proposed effective dates, you must notify the AIRB immediately of the revised dates and reason for the delay.
- In responding to Question 4, the indicated rate level change by coverage, and on an all coverage combined basis, must be disclosed under the following circumstances:
  - where changes to base rates are being proposed, except if such changes to base rates result solely from off-balancing differential or discount changes; or
  - where changes to differentials are being proposed, if such changes result in an overall rate level change.
- In responding to Question 4, the impact of all proposed changes to rates or rules, including base rate changes, differential changes, discount or surcharge changes, and rating rule changes, must be disclosed under the proposed rate level change column. The impact by coverage must be calculated, on an uncapped basis, and disclosed.
- In responding to Question 4b, the exposure weights by coverage should be disclosed in percentage terms based on the number of insured vehicles under Bodily Injury and should reflect the in-force or, if not available, most recent accident year distribution level.
- In responding to Question 5a, prior approved rate level changes should be shown. The All Coverage Combined Rate Level Change should be based on the on-level premium weights that were applicable at the time of the rate change.
- In responding to Question 5b, the Average Cumulative Rate Change is to be calculated by:
  - taking the All Coverage Combined Rate Level Change from the response to question 4;
  - taking each All Coverage Combined Rate Level Change that occurred after January 1 of the year up to the proposed renewal effective date from the responses to question 5a,

  and then using the following formula:

$$\left[\prod_{\text{all } i,\, d} (1 + i)(1 - d) \right] - 1$$

  where: *i* = the proposed rate level increase or approved rate level increase(s) that occurred after January 1 of the year in which the proposed rate change is expected to be effective for renewal business; and

  d = the proposed rate level decrease or approved rate level decrease(s) that occurred after January 1 of the year in which the proposed rate change is expected to be effective for renewal business.

SECTION 3: CERTIFICATES OF THE OFFICER AND OF THE ACTUARY

3.a. Certificate of the Officer

Each filing must be accompanied by a signed authorized Certificate of the Officer form. A copy of the Certificate of the Officer form is attached as Appendix B1. Authorized officers for the insurer are the President, CEO, COO, CFO, any vice-president, the treasurer, the corporate secretary and the Chief Agent for Canada.

3.b. Certificate of the Actuary

Filings that result in a rate level change, or filings for a category of automobile insurance previously not written by an insurer, must be accompanied by a Certificate of a Fellow of the Canadian Institute of Actuaries. A copy of the required form is attached as Appendix B2.

SECTION 4: ACTUARIAL SUPPORT

The insurer must provide detailed support for any rate level change. Actuarial support should contain the data and narrative description of all ratemaking steps for each of the specific rate changes being proposed. At a minimum, detail should be provided for Third Party Liability - Bodily Injury, Third Party Liability - Property Damage, Accident Benefits, Underinsured Motorist, All Perils, Collision, Comprehensive and Specified Perils, even if a rate level change is not proposed for each coverage. Each subsection, outlined below, must contain the necessary documentation for each individual coverage (e.g., the section on loss trend must contain loss trend documentation for Third Party Liability-Bodily Injury, Third Party Liability - Property Damage, Accident Benefits, Collision, etc.). In general, documentation must be in sufficient detail to enable the reviewer to trace the resulting rates from the raw data experience and other supporting data. The AIRB does not require insurers to use a specific ratemaking methodology. However, insurers are required to provide adequate actuarial documentation and support for the rate levels.

The analysis to support the filing must be submitted in an Excel worksheet. The Excel worksheet must either include the formula in the respective cells as opposed to the just the value or the formulae and location of source data used in those calculations must be footnoted on each page of calculations.

Insurers must submit a copy of their submission to the GISA Automobile Insurance Financial Information (AIFI) report for the years available (three years as report matures) and GISA loss experience data for reconciliation with any internal data used in its analysis.

All support provided in this section must reconcile to the Summary of Information (Appendix A).

The support for an overall rate level change should be comprised of the following subsections, in the order set out below. Each section or subsection should be labelled according to the numbering scheme provided and contain all data, data definitions and sources, and any narrative necessary to explain or clarify the various ratemaking steps.

Overall Rate Level Indication:

4.a. Overall Description of the Ratemaking Methodology and Summary

4.b. Development of Loss Experience
1. Loss Development
2. Claim Count Development
3. Loss Trend
4. Treatment of Large Losses
5. Catastrophe (or Excess Claim) Procedure
6. Other Adjustments

4.c. Unallocated Loss Adjustment Expenses (ULAE)

4.d. Heath Cost Recovery (Third Party Liability only)

4.e. Premium
1. On-level Adjustments
2. Premium Trend
3. Other Adjustments

4.f. Other Expenses
1. Exposure Variable Expenses
2. Premium Variable Expenses

4.g. Profit Provisions

4.h. Credibility
1. Credibility Standards
2. Balance of Credibility

4.i. Other Adjustments

4.j. Summary Rate Level Indications

Rate Differential Indications:

4.k. Territorial Indications
1. Indicated Differentials
2. Off-balance

4.l. Implementation of CLEAR System Differentials
1. Overall Description for Implementing CLEAR
2. Off-balance

4.m. Classification/Limit of Liability/Deductible or Other Rate Differential Indications
1. Indicated Differentials
2. Off-balance

4.n. Introduction of New Rating Variable
1. Indicated Differentials
2. Off-balance

4.o. Endorsements

1. Revision to Current Endorsements
2. Introduction of New Endorsements

4.a. Overall Description of the Ratemaking Methodology and Summary

An insurer may use either a pure premium or a loss ratio ratemaking approach. This section must indicate the type of approach used and generally outline the process in a summary narrative. A general description of the data must also be included. Specific and detailed information on the data must be included in the appropriate subsections using that data. For example, third party liability loss data should state whether it is for all limits combined or if it is for a specific (basic) limit. Data source (i.e., insurer data or industry data) and valuation date should be clearly labeled.

Any change to the ratemaking methodology from that used in the previous filing should be explained.

4.b. Losses Including Allocated Loss Adjustment Expenses

If losses are considered together with Allocated Loss Adjustment Expenses (ALAE), it should be noted in this section and all references to "loss" in this subsection should be considered as referring to "losses and allocated loss adjustment expenses."

The type of loss data must be described in this subsection (i.e., accident year or policy year). Where another basis is used, justification must be provided. The experience period and the respective valuation dates should also be noted. The source of the data should be clearly noted (e.g., insurer internal data, insurer data as provided by GISA or industry data). Direct losses (i.e., prior to any reinsurance transactions) should be the basis for ratemaking. Direct losses should not include assessments from net operating losses on the Facility Association Residual Market risk business.

If ALAE are considered separately from losses, provide the same detailed information as described above for losses.

In more specific terms:

a) The insurer's own current direct (i.e., prior to reinsurance transactions) loss data must be provided, otherwise the filing will be deemed incomplete. An explanation is necessary where the data does not include the most recent half year.

b) The insurer's own loss data must be used to the extent that it is credible.

c) Loss data must be Alberta specific for the filed category of insurance at the coverage level. Valuation data for loss reserving purposes may not satisfy this requirement.

d) Data at the major sub-coverage level is generally required for estimating ultimate costs. Aggregation will be required to estimate the required change in rates.

   Loss experience should be subdivided at the major sub-coverage level as follows with consideration given to homogeneity and credibility of the data. The following are the

major sub-coverage in the GISA Loss Development Exhibits of the GISA Automobile Statistical Plan (ASP). Finer break-down of loss experience may be determined to be more appropriate.

TPL - Bodily Injury
TPL - Property Damage

Accident Benefits

Underinsured Motorist (SEF 44)

Collision

Comprehensive

All Perils

Specified Perils

e) For each coverage and sub-coverage listed above, payment patterns must be developed for purposes of discounting claims. Insurers must show the interest rate selected by coverage for discounting purposes and the rationale for the selection. The selected discount rate must not be lower than the Board approved risk free rate published in the latest industry benchmark schedule.

f) If the filing considers industry experience, it must use the most recent industry ratemaking data that is available. Accident full year and accident half-year loss development data on an industry-wide basis is generally available in April and early December, respectively.

g) Insurer automobile experience collected by GISA under the ASP is generally considered to be appropriate for ratemaking purposes. Companies that rely on alternative data sources should be able to reconcile closely with the AIX loss ratio and insurer loss development data reported under the ASP as of a common evaluation date. Insurers are required to provide a copy of the AIX data to demonstrate that the ratemaking data is reasonably accurate and reconciles to the data used to support rate changes. If the data does not reconcile closely to the AIX, explanations will be necessary.

4.b.1. Loss Development

The data must be developed to an ultimate level through the use of an appropriate loss development procedure.

The specific loss development approach used in the filing should be outlined and the details of the calculations and supporting worksheets should be disclosed in this subsection. All judgments associated with the process of loss development should be disclosed in detail and supported (e.g., the selection of loss development factors). Reference to the selections made in the rate filing are those of the Appointed Actuary is not sufficient support; detailed supporting worksheets must be provided.

Loss development should be based on the insurer's own Alberta data to the extent possible. In very few cases should it be necessary to rely on outside data. Should the insurer find it

necessary to rely on outside data or a different source of internal data (such as affiliated insurer data), the filing must identify the source of the data and provide an explanation of its applicability. In those cases where the insurer relies upon industry experience to estimate its ultimate losses, the insurer must explain why use of industry experience is more appropriate than basing ultimate loss estimates on its own data.

All data used in the process of loss development must be exhibited and labelled (e.g., are the losses paid or case incurred, what are the dates of valuation). At a minimum, the history of insurer incurred loss data valued at 12 month intervals must be provided (so-called "triangles" of loss valuations at various stages of development).

If loss development for a partial accident year is used, then comparable experience at the same level of maturity must be provided to support the selected loss development factors.

If credibility procedures are used in loss development, the selection of the credibility criterion should be disclosed, the filing of the credibility standard should be presented, and the complement of credibility should be disclosed and supported.

The general approach to loss development can be expected to remain reasonably constant over the years for an insurer. Any change in either the approach or the underlying data from the prior rate filing should be disclosed and supported.

4.b.2. Claim Count Development

The claims must be developed to an ultimate level through the use of an appropriate claim count development procedure.

The specific claim count development approach used in the filing should be outlined and the details of the calculations and supporting worksheets should be disclosed in this subsection. All judgments associated with the process of claims development should be disclosed in detail and supported (e.g., the selection of claims development factors). Reference to the selections made in the rate filing are those of the Appointed Actuary is not sufficient support; detailed supporting worksheets must be provided.

Claim count development should be based on the insurer's own Alberta data to the extent possible. In very few cases should it be necessary to rely on outside data. Should the insurer find it necessary to rely on outside data or a different source of internal data (such as affiliated insurer data), the filing must identify the source of the data and provide an explanation of its applicability. In those cases where the insurer relies upon industry experience to estimate its ultimate losses, the insurer must explain why use of industry experience is more appropriate than basing ultimate loss estimates on its own data.

All data used in the process of claim count development must be exhibited and labelled (e.g., are the claims closed with or without payment, or both, or total claims, what are the dates of valuation). At a minimum, the history of insurer reported claim data valued at 12 month intervals must be provided (so-called "triangles" of claim valuations at various stages of development).

If claim development for a partial accident year is used, then comparable experience at the same level of maturity must be provided to support the selected claim development factors.

If credibility procedures are used in claim count development, the selection of the credibility criterion should be disclosed, the filing of the credibility standard should be presented, and the complement of credibility should be disclosed and supported.

The general approach to claim count development can be expected to remain reasonably constant over the years for an insurer. Any change in either the approach or the underlying data from the prior rate filing should be disclosed and supported.

4.b.3. Loss Trend

The specific loss trend approach used must be outlined and the details of the calculations should be disclosed in this subsection. All judgments associated with the process of loss trend must be disclosed in detail and supported.

Loss trends are usually based on industry-wide experience in Alberta. To the extent credible, loss trends based on the insurer's own experience may also be useful to reflect the dynamics of the insurer's business. All data used in the process of estimating annual loss trends must be exhibited, at least in summary form, and labelled (e.g., are losses paid or incurred, developed or undeveloped).

If credibility procedures are used in estimating loss trend, the selection of the credibility criterion should be disclosed and supported, the application of the credibility standard should be presented, and the complement of credibility should be disclosed and supported.

Selected loss trends must be supported with an analysis of the indicated loss cost changes using an appropriate loss trend methodology. Loss trend selections that do not follow the indicated loss trends must be rationalised and explained. Supporting documentation would include the date to which future trend is applied and the calculation of the average accident date.

The length of the trend period will depend on the term of coverage offered by the insurer, the proposed effective date, and the valuation date of the loss data. Each of these items must be disclosed. If trend is divided into past trend and future trend components, each component must be fully disclosed and supported in the detail described above including the date to distinguish between past and future trend. Loss cost trends are generally sufficient. However, frequency and severity trends are often reviewed and analysed separately in the selection of trend factors, but correlations between frequency and severity should be considered.

The general approach to estimating loss trend can be expected to remain reasonably constant over the years for an insurer. Any changes in either the approach or the underlying data from the prior rate filing should be disclosed and supported.

An insurer can apply the most recent industry benchmark trends issued by the AIRB and posted on its website at http://www.airb.alberta.ca/filing-guidelines following its analysis of GISA's publication of Loss Development Exhibits for half year and full year data without support.

4.b.4. Treatment of Large Losses

The filing must clearly indicate how large losses in the experience period have been handled. If losses have been capped, the number of such losses and the effects of the caps must be demonstrated. Loss development data on a capped basis should be provided to support the estimation of ultimate losses on a capped basis.

The insurer should ensure that large losses do not cause significant instability in the rates from one period to the next.

4.b.5. Catastrophe (or Excess Claim) Procedure

Comprehensive, Specified Perils, and All Perils coverage are subject to losses arising from natural catastrophes. If a procedure is used to estimate the impact of such losses, that procedure must be included in this subsection.

The specific catastrophe procedure used should be outlined and the details of the calculations should be disclosed and supported. All judgments associated with the process of calculating the catastrophe provision should be disclosed in detail and supported.

The catastrophe procedure should make use of the insurer's own data to the extent possible, augmented where necessary by other relevant data. All data used in calculating a provision for catastrophe losses must be exhibited and labelled.

The general approach to estimating catastrophe losses can be expected to remain reasonably constant over the years for an insurer. Any changes in either the approach or the underlying data from the prior rate filing should be disclosed and supported.

4.b.6. Other Adjustments

Any other adjustments to the loss data should be disclosed, documented, and supported in this subsection. An example would be an adjustment to historical loss experience to reflect product changes such as an upgrade or update to accident benefits coverage in developing indications for the period in which proposed rates will be in effect.

Data must be exhibited and labelled, procedures must be outlined, and changes from the prior rate filing must be noted.

4.c. Unallocated Loss Adjustment Expenses (ULAE)

The specific approach used to include a provision for ULAE must be outlined and details of the calculations must be disclosed and supported. All judgments associated with the estimation of ULAE must be disclosed in detail and supported.

The estimate of ULAE should make use of the insurer's own data for each category of insurance and coverage to the extent possible. Should the insurer find it necessary to rely on outside data or a different source of internal data, the filing must identify the source of the data and provide an explanation of its applicability in the circumstance. All data used in the process of estimating ULAE must be exhibited and labelled (e.g., is the ULAE paid or incurred, calendar year or

accident year). If the actual ULAE costs vary over the experience period, the ULAE provision should also vary over the experience period.

The general approach to estimating ULAE can be expected to remain reasonably constant over the years for the insurer. Any change from the prior rate filing in either the approach or the underlying data should be disclosed and supported. Explain departures from AIFI data that was submitted to GISA.

4.d. Health Cost Recovery (Third Party Liability Only)

The Government of Alberta assesses an annually adjusted amount to industry to cover the cost of health services provided to victims of automobile accidents. The annual levy is set as a percentage of estimated total written third party liability premium for the upcoming year. The percentages for each year are posted on the Alberta Finance website at: http://www.finance.alberta.ca/publications/tax_rebates/healthcostsrecovery/.

The amount included for Health Cost Recovery must be determined by multiplying the latest assessment factor by the on-levelled and trended earned premium for each year in the experience period. This amount is then applied to Third Party Liability coverage as an additional fixed expense.

4.e. Premium

The premium data must be described in this subsection. The experience period and the source of the premium data must also be disclosed.

- Direct premiums (i.e., prior to any reinsurance transactions) should be the basis for.
- Direct premiums must not include premiums for the Facility Association Residual Market risk business.
- In case an insurer chooses to charge less than the approved rates with un-filed discounts, the premium must be brought to the undiscounted basis.

4.e.1. On-level Adjustments

All premiums by coverage and territory used in the filing must be adjusted for previous rate changes.

If an insurer uses a loss ratio approach to ratemaking, earned premium must be adjusted to the level of the current rates through the use of an appropriate on-level procedure. Both the actual earned and the current rate level (CRL) earned premiums should be displayed.

The calculations must be disclosed if on-level adjustments are made by means of a factor approach (e.g., parallelogram). If on-level adjustments are made by means of calculating premiums at current rates through computer re-rating of policies (i.e., extension of exposures), a description of the process should be provided with a comparison of the results to the results obtained using the parallelogram method. Any significant difference should be explained.

On-level premium must be adjusted to an uncapped level.

The insurer's history of rate changes by coverage for the prior five years must be included in this section.

4.e.2. Premium Trend

Premium trend must be considered for coverage with inflation-sensitive exposure bases or for coverage where a changing mix of exposures may result in a corresponding change in premium income to the insurer. The changing mix of exposures with respect to the makes and models of cars for physical damage coverage is an example of a change in mix of exposures which could produce premium trend. (Under CLEAR [Canadian Loss Experience Automobile Rating], premium trend is already accounted for in the development of the rate groups.)

The specific premium trend approach used in the filing must be outlined and details of the calculations should be disclosed and supported. All judgments associated with the process of premium trend should be disclosed in detail and supported.

Premium trend should make use of the insurer's own data to the extent possible. To the extent the premium trend measures changes in the mix of business over time for the insurer's own portfolio, a commensurate adjustment to the loss experience for the changing mix of business must also be included in the analysis.

Should the insurer find it necessary to rely on outside data or a different source of internal data, the filing must identify the source of the data and provide an explanation of its applicability in the instant circumstance. All data used in the process of estimating premium trend must be exhibited and labelled.

The general approach to estimating premium trend can be expected to remain reasonably constant over the years for the insurer. Any change in either the approach or the underlying data from the prior rate filing must be disclosed, explained, and supported. Treatment of premium trend should consider:

a) The gradual shift in the distribution of business to newer and more expensive cars results in increases in physical damage premiums. This must be explicitly reflected in deriving rate level indications. Otherwise, rate indications for certain coverage will be misstated.

b) The annual industry average changes in rate group differentials are determined and published by the Insurance Bureau of Canada (IBC). Insurers are required to provide their rate group distributions to support the selected rate group drifts.

c) The rate group drift and liability limit drift must be taken into consideration in each filing.

d) Finance fees or charges collected through premium instalment plans should be separately identified, both as a dollar amount and as a percentage of premium. Premium payment patterns may be adjusted for policies with premium instalment plans. As well, the delay in collection of premium should be documented and a factor applied. As noted in 4.f. below, the finance fee revenues should be taken into consideration in calculating the rate level change need - either as an additional

percentage of premiums or a reduction to the expense provision. In either case, it should be clearly presented and supported in the documentation.

4.e.3. Other Adjustments

Any other adjustments to the premium data should be disclosed, documented, and supported in this subsection.

Data must be exhibited and labelled, procedures must be outlined, and changes from the prior rate filing must be noted.

4.f. Other Expenses

Other expenses (i.e., non-claims related expenses) must be divided between exposure variable (fixed) and premium variable (variable) expenses in a manner that is consistent with the way the insurer conducts its business, the manner in which expenses are incurred, and the type of unit insured. The details of this segregation of expenses should be disclosed and documented.

Direct expenses (i.e., prior to any reinsurance transactions) should be the basis for ratemaking and must not include insurer's costs to Facility Association Residual Market risk business.

In the case that an insurer belongs to an insurer group, the actual expense for the insurer should be used, instead of using the expense allocated from the insurer group.

The insurer must provide copies of its submission for GISA AIFI exhibits for each year available and for up to three years once that exhibit matures, to support its expense provision (and components thereof) included in the rate level indication calculations.

A reasonable approach is to treat commissions and premium taxes as premium variable expenses and treat half or all of other expenses as fixed expenses. Treating all general expenses as a variable of premiums is generally inappropriate. The AIRB also accepts allocation of fixed expenses across all coverage.

The AIRB does not prohibit inclusion of contingent commission though its current position is that the provision cannot exceed 3.0% of premiums and must be supported. The standard commission and contingent commission provisions must be separately stated.

The marketing expenses must be separately listed. Normal marketing expenses are allowed to be included in the expense provision. However, extraordinary expenses due to expansions, mergers and acquisitions etc. will not be allowed to be passed on to policyholders.

As noted in 4.e.2, finance fee revenues should be separately and clearly identified. The finance fee revenues can either be treated as additional premiums or a negative expense (in either case as a percentage of premiums) in calculating the rate level change indication.

There must be no expense provision established in respect of the Facility Association Residual Market.

An insurer must provide support for its provisions for other expenses, and in particular must adequately explain an expense provision that is significantly higher than the industry average expense provision set out in the most recent GISA "Automobile Insurance Financial Information Report." If the support is not satisfying, the AIRB may use the 75th percentile of the industry

expense provision to calculate the alternative indication. Any one-time expenses that create significant variances in one or more years must be explained.

4.f.1. Exposure Variable Expenses (Fixed)

Some expenses can be expected to vary in relationship to the number of units insured (exposures) rather than in relationship to the premium volume.

The specific approach to estimating exposure variable expenses used in the filing must be outlined and details of the calculations disclosed. All judgments associated with the process of estimating exposure variable expenses must be disclosed in detail and supported.

Exposure variable expenses should make use of the insurer's own data. Should the insurer find it necessary to rely on outside data or a different source of internal data, the filing must identify the source of the data and provide an explanation of its applicability in the instant circumstance. All data used in the process of estimating exposure variable expenses must be exhibited and labelled.

Exposure variable expenses may be subject to trend. The elements of trend discussed in subsection (4.b.2.) apply to this subsection as well.

The general approach to estimating exposure variable expenses can be expected to remain reasonably constant over the years for the insurer. Any change in either the approach or the underlying data from the prior rate filing should be disclosed and supported. The insurer must explain any significant departure from insurer information that was submitted in its P&C-1.

Exposure variable expenses must be allocated across all the coverage.

4.f.2. Premium Variable Expenses (Variable)

Some expenses can be expected to vary in relationship to the premium volume rather than in relationship to the number of units insured.

The specific approach to estimating premium variable expenses used in the filing must be outlined and details of the calculations must be disclosed. All judgments associated with the process of estimating premium variable expenses must be disclosed in detail and supported.

Premium variable expenses should make use of the insurer's own data. Should the insurer find it necessary to rely on outside data or a different source of internal data to estimate these expenses, the filing must identify the source of the data and provide an explanation of its applicability in the instant circumstance. All data used in the process of estimating premium variable expenses must be exhibited and labelled.

The general approach to estimating premium variable expenses can be expected to remain reasonably constant over the years for the insurer. Any change in either the approach or the underlying data from the prior rate filing should be disclosed and supported. The insurer must explain any significant departure from insurer information that was submitted in its P&C-1.

4.g. Profit Provisions

The AIRB has established 7% of premium as a target pre-tax profit provision by coverage (including Facility Association). All insurers must submit their rate indications based on target profit provision as a percentage of premium.

Insurers that state their target profit levels in terms of an after-tax return on equity (ROE) must convert their target ROE provisions to a pre-tax percentage of premium basis.

Claim costs must be discounted to reflect the investment income on policyholder supplied funds. The rate of return on investment (ROI) is a risk-free rate based on Government of Canada bond yields of appropriate durations.

The 7% premium target does NOT take investment income on capital into consideration. The insurer should convert the ROE to return on premium (ROP) based on the formula below:

$$ROP = \frac{\frac{aftertax\ ROE\ - ROI * (1 - tax)}{PSR}}{1 - tax}$$

Where

- PSR is the premium-to-surplus ratio (surplus = assets - liabilities)
- Tax is the applicable tax rate

Insurers must justify any selected profit provision that is higher than the Board's selected target, support the selected discount rates used, and disclose and support the claims pay-out patterns that are applied.

The selected claims payment pattern must be internally consistent with the estimate of the ultimate loss amount to be paid.

If the proposed rates are different from those which are actuarially indicated based on the target profit level (stated as a pre-tax percent of premium), the insurer must provide an estimate of the target profit level (stated as a pre-tax percent of premium) underlying the proposed rates.

The general approach in selecting the discount rates or claims payment patterns can be expected to remain reasonably constant over the years for the insurer. Any change in either the approach or the underlying data from the prior rate filing should be disclosed and supported.

4.h. Credibility

The Alberta experience of the insurer may not be of sufficient volume to produce stable overall province-wide rate level indications that are actuarially credible. In such cases, credibility procedures should be used as a means of augmenting the insurer's Alberta data.

The standard for 100% credibility and the formula for calculating partial credibility must be disclosed and supported. A commonly used standard of 1,082 claims for short tail, low severity/low volatility coverage, such as property damage and physical damage, is considered reasonable. The use of a higher standard in long-tail, high severity/high volatility coverage in

the form of a multiplier of the base standard, is considered reasonable. The credibility of BI and PD loss experience should be assessed separately.

It is expected that the standard for full credibility would be higher for loss trends than for the insurer loss experience period (usually 3 to 5 years) used to determine the rate indications.

If prior filing indications are utilized in the credibility complement and the AIRB has communicated significant differences to the insurer regarding its indications versus the AIRB's, consideration must be given to adjusting the prior indication for these differences before utilizing it in the current credibility complement.

If an alternative body of data experience is used as a credibility complement, exhibits must be included to show the adjustments made to this data for risk distribution differences. Differences in loss costs or loss ratios due to differences in risk characteristics (other than distributional differences) between the data groups should be considered and adjusted where appropriate.

The approach to credibility can be expected to remain reasonably constant over the years for the insurer. Any changes from the prior rate filing in the credibility standard or procedure must be disclosed and supported.

4.i. Other Adjustments

Any other adjustments made to the data which affect expected premium or losses must be quantified and their effect on the rates must be disclosed and supported in this section.

4.j. Summary Rate Level Indications

Summary sheets must be provided showing how the data combines with the adjustments and provisions outlined in subsections (4.b.) - (4.i.).

The indicated rate change should be based on at least three consecutive years of the most recent actual experience. An appropriate weight should be applied to each year, generally assigning more weight to the most recent years. If these weights are different from the insurer's prior filing, the change must be disclosed, explained, and supported.

Proposed rate changes must be in the same direction and same relative magnitude as the indicated rate change direction at the coverage level. For example, if the indicated rate change for TPL is positive and the indicated rate change for AB is negative, the AIRB expects a proposed increase in the rates for TPL and a proposed decrease in the rates for AB, even though both TPL and AB are required basic coverage.

Significant differences at the coverage level between the indicated and proposed rate changes must be explained.

The data included in the experience period must be readily reconcilable with information provided in Appendix A of the insurer's filing.

Rationale and other considerations in support of the proposed rate changes must be provided.

Insurers should regularly review their indicated rate levels and current rate levels for all categories of automobile insurance.

4.k. Territorial Indications and Proposed Differentials

4.k.1 Indicated Territorial Indications and Proposed Differentials

If there is no change being proposed for territory, then the insurer should contact the AIRB actuary for approval to waive the territorial analysis. The insurer has to follow the following guidelines if no waiver is received.

Territorial indications must be provided and the territorial ratemaking process must be outlined in detail in every required filing whether or not the insurer is proposing rate level changes that differ by territory.

Territorial indications should be calculated by making use of the insurer's own data. Should the insurer find it necessary to rely on outside data or a different source of internal data, the filing must identify the source of the data and provide an explanation of its applicability in the instant circumstance. All data used in the process of developing territorial indications must be exhibited and labelled.

A comparison of the current, indicated, and proposed territorial differentials must be provided by coverage when changes are proposed with an explanation of differences between indicated and proposed. Proposed changes should be in the direction indicated. Included in this should be the written premium distribution and the exposure distribution by coverage, by territory.

If credibility procedures are used, they must be disclosed and supported in the same detail as outlined in subsection (4.h.).

The general approach to calculating territorial differentials can be expected to remain reasonably constant over the years for the insurer. Any change in either the approach or the underlying data from the prior rate filing should be disclosed and supported. Costs must be fairly allocated between territories.

Insurers must adhere to the Automobile Statistical Plan (ASP) territories for third party liability and accident benefits coverage. Any changes to territorial definitions for physical damage/additional coverage must be supported and accompanied by colour maps showing current and proposed territorial boundaries as appropriate. An insurer cannot change territorial rates without an approved filing because Canada Post has made changes to postal codes.

4.k.2 Off-balance

The aggregate premium may be increased or decreased through the introduction of new territorial rates or rate differentials or by changes to existing ones. The filing must account for these changes through the use of off-balance procedures or by accounting for the premium change in its rate level. [In the event that the change in territorial differentials is not off-balanced and instead a rate level change is generated, subsections (4.a.) - (4.j.) must also be completed.]

All data used in the process of calculating the off-balance must be exhibited and labelled. The calculation of the off-balance amount must be shown. All judgments associated with the process of calculating the off-balance should be disclosed and supported.

Off-balance calculations should make use of the insurer's own distribution of business. Should the insurer find it necessary to rely on outside data or a different source of internal data, the filing must identify the source of the data and provide an explanation of its applicability in the instant circumstance.

The general approach to calculating the off-balance can be expected to remain reasonably constant over the years for the insurer. Any change in either the approach or the underlying data from the prior rate filing should be disclosed and supported.

4.l. Implementation of Rate Group Differentials

An insurer may use the Full or Simplified Filing Guidelines if changes to Private Passenger vehicle rate group differentials are being proposed.

Even if an insurer is simply updating the annual vehicle rate group tables (e.g. CLEAR or IAO tables), the rate group drift must be taken into account. Insurers are not allowed to off-balance premium impact due to rate group updates to coverages that do not have rate group as a rating variable.

4.l.1. Overall Description for Updating Rate Group Tables

This section should indicate the rate group table that is being used and capping procedures, if any, should be described in this section. A list of vehicles, by make, model and model year, that have been capped, should also be provided.

4.l.2. Off-balance

Updating of rate group tables may increase or decrease premium level. The filing must account for these through the use of off-balance procedures or by accounting for the premium change in its rate level. In the event that the change is not off-balanced, and instead a rate level change is generated, subsections (4.a.) - (4.j.) must also be completed.

All data used in the process of calculating the off-balance must be exhibited and labelled. The calculation of the off-balance amount must be shown. All judgments associated with the process of calculating the off-balance should be disclosed and supported.

Off-balance calculations should make use of the insurer's own distribution of business. Should the insurer find it necessary to rely on outside data or a different source of internal data, the filing must identify the source of the data and provide an explanation of its applicability in the instant circumstance.

4.m. Classification/Limit of Liability/Deductible or Other Rate Differential Indications

The insurer must provide both indicated and proposed differentials for any rating variables (including discounts and surcharges) for which there are proposed changes. An explanation is required where the proposed differentials are not moving in the direction indicated.

4.m.1. Indicated Differentials

If the insurer is requesting changes in classification differentials, limit of liability differentials, deductible differentials, or other rate differentials, the ratemaking process must be outlined in detail.

Classification, limit of liability, deductible, and other rate differential indications should make use of the insurer's own data. Should the insurer find it necessary to rely on outside data or a different source of insurer data, the filing must identify the source of the data and provide an explanation of its applicability in the analysis. All data used in the process of developing classification, limit of liability, deductible, or other rate differential indications must be exhibited and labelled.

A comparison of the current, indicated, and proposed differentials must be provided by coverage for which classification, limit of liability, deductible, or other rate differentials are changing. Included in this should be the written premium distribution and the exposure distribution by classification, limit of liability, deductible, or other rate differential.

When a predictive model or some other analytical pricing method such as the Generalized Linear Model (GLM) or Generalized Additive Model (GAM) is used to analyze the proposed classification variables and rating differentials, a complete description of the model, data source, data variables and assumptions must be provided. The result derived from traditional methods such as loss ratio method should also be provided to reconcile general direction. When different data segments are used in the analysis, details of the data and any adjustments made to the data prior to filing should be clearly provided.

The method of selecting the classification variables based on this alternate analysis must be outlined. Model results should be included to sufficiently show the correlation of the results between variables. If judgment is applied in the inclusion or exclusion of the variables in the proposal, the basis of the judgment should be provided.

If credibility procedures are used, they must be disclosed in the same detail as outlined in subsection (4.h.).

The insurer must include a comparison of indicated and proposed relativities with an explanation of differences. Proposed changes should be in the direction indicated.

The general approach to calculating rate differentials can be expected to remain reasonably constant over the years for the insurer. Any change in either the approach or the underlying data from the prior rate filing must be disclosed and supported. The insurer must test for and avoid reversals in its proposed differentials.

4.m.2. Off-balance

The aggregate premium may be increased or decreased through the introduction of new classification, limit of liability, deductible, or other rate differentials or by changes to existing ones. The filing must account for these changes through the use of off-balance procedures or by accounting for the premium change in its rate level. In the event that the change in classification, limit of liability, deductible, or other rate differentials is not off-balanced and instead a rate level change is generated, subsections (4.a.) - (4.j.) must also be completed.

All data used in the process of calculating the off-balance must be exhibited and labelled. The calculation of each off-balance must be shown. All judgments associated with the process of calculating the off-balance should be disclosed and supported.

Off-balance calculations should be based on the insurer's own distributions of business by classification, limit of liability, deductible, or other rate differential. Should the insurer find it necessary to rely on outside data or a different source of internal data, the filing must identify the source of the data and provide an explanation of its applicability in the circumstance.

The general approach to calculating the off-balance can be expected to remain reasonably constant over the years for the insurer. Any change in either the approach or the underlying data from the prior rate filing should be disclosed and supported.

4.n. Introduction of New Rating Variable

Insurers may introduce new rating variable into their rating programs if the rating variable is approved by the Superintendent of Insurance. Any rating variable that has not been previously approved must be submitted to the Superintendent of Insurance for approval prior to including it in a rate filing. Data should be provided in support of a new rating variable. The AIRB will consider non Alberta data, provided it is credible and relevant to the current Alberta product.

Where the insurer is introducing a rating variable to its algorithm, the approach used in costing and a general narrative of the process must be outlined in detail.

4.n.1. Indicated Differentials

Rate differential indications should make use of the insurer's own data where possible. Should the insurer find it necessary to rely on outside data or a different source of insurer data, the filing must identify the source of the data and provide an explanation of its applicability in the analysis. All data used in the process of developing rate differential indications for a proposed rating variable must be exhibited and labelled.

A comparison of the indicated and proposed differentials must be provided by coverage to which the proposed rating variable would apply. Included in this should be the written premium distribution and the exposure distribution.

When a predictive model or some other analytical pricing method such as the Generalized Linear Model (GLM) or Generalized Additive Model (GAM) is used to analyze the proposed classification variables and rating differentials, a complete description of the model, data source, data variables and assumptions must be provided. The result derived from traditional methods such as loss ratio method should also be provided to reconcile general direction. When different data segments are used in the analysis, details of the data and any adjustments made to the data prior to filing should be clearly provided.

The method of selecting the classification variables based on this alternate analysis must be outlined. Model results should be included to sufficiently show the correlation of the results between variables. If judgment is applied in the inclusion or exclusion of the variables in the proposal, the basis of the judgment should be provided.

If credibility procedures are used, they must be disclosed in the same detail as outlined in subsection (4.h.).

The insurer must include a comparison of indicated and proposed relativities with an explanation of differences. Proposed changes should be in the direction indicated.

The general approach to calculating rate differentials can be expected to remain reasonably constant over the years for the insurer. Any change in either the approach or the underlying data from the prior rate filing must be disclosed and supported. The insurer must test for and avoid reversals in its proposed differentials.

4.n.2. Off-balance

The aggregate premium may be increased or decreased through the introduction of a new rating variable. The filing must account for these changes through the use of off-balance procedures or by accounting for the premium change in its rate level. In the event that the introduction of the new rating variable is not off-balanced and instead a rate level change is generated, subsections (4.a.) - (4.j.) must also be completed.

All data used in the process of calculating the off-balance must be exhibited and labelled. The calculation of each off-balance must be shown. All judgments associated with the process of calculating the off-balance should be disclosed and supported.

Off-balance calculations should be based on the insurer's own distributions of business by classification, limit of liability, deductible, or other rate differential. Should the insurer find it necessary to rely on outside data or a different source of internal data, the filing must identify the source of the data and provide an explanation of its applicability in the circumstance.

The general approach to calculating the off-balance can be expected to remain reasonably constant over the years for the insurer. Any change in either the approach or the underlying data from the prior rate filing should be disclosed and supported.

4.o. Endorsement

4.o.1 Revision to Current Endorsements

Insurers must provide own loss experience to support the changes. If own experience is not available, insurers are required to provide information that are used in its decision-making to set the rates.

4.o.2 Introduction of New Endorsements

Insurers may introduce new endorsement into their rating programs if the endorsement has been approved by the Superintendent of Insurance.

If insurers are employing a Standard Endorsement Form, no approval from the Superintendent of Insurance is needed. Insurers are only required to provide supporting materials for the pricing.

If insurers are introducing a non-standard endorsement (Conditionally Approved Endorsement), the form has to be approved by the Superintendent of Insurance before it is submitted to the AIRB for rate approval. Supporting materials for its pricing is also required.

SECTION 5: RATING RULE CHANGES

Rating rules are those rules by which a risk is assigned to a specific rating cell or by which a discount or surcharge is applied. Examples include rules by which territory, vehicle use or driving record is assigned. Rating rules are part of an insurer's rating program and must be filed. The rate level impact as a result of the rating rule changes should be quantified and its impact should be reflected in the proposed rate level changes.

Draft rate manual pages that describe changes to rules or definitions must be included with the filing.

The required information should include: (i) a description of the proposed changes, (ii) the rationale for the proposed changes, (iii) the rate level effects of the proposed changes, and (iv) calculations that validate the rate level effect of the proposed changes based on the expected distribution of business.

5.a. Rating Rule Changes for Classification Variables

Any change to a rating rule for a particular classification must be disclosed in this section. A current and a proposed distribution of the classification that is affected by the rating rule change must be provided to determine the average premium change (shift) and impact on the overall rate level. All assumptions and detailed calculations must be provided to support the rate level change.

5.b. Rating Rule Changes for Discounts and Surcharges

Any change to a rating rule for a particular discount or surcharge must be disclosed in this section. Also the rating rule applicable to a newly proposed discount or surcharge must be disclosed in this section. A current and a proposed distribution of the business that is affected by the rating rule change must be provided to determine the average premium change (shift) and impact on the overall rate level. Also all assumptions and the rationale to support the use of the rating rule must be disclosed.

SECTION 6: FINAL RATES/RATE LEVEL CHANGE

Exhibits illustrating current and proposed rating algorithms, base rates, discounts/surcharges, and differentials, clearly identified as either current or proposed, must be disclosed in this section, including any explanatory material in support of the proposed changes. To facilitate the review process, all of 6.a. - 6.d. must be included even though the change may be to only one of the elements.

6.a. Algorithm

Exhibits illustrating current and proposed algorithms for all coverage, including discounts and surcharges and 6-month policy adjustment factor (if applicable) must be disclosed in this section.

6.b. Base Rates

Exhibits illustrating current and proposed base rates must be disclosed in this section.

6.c. Differentials

Exhibits illustrating current and proposed differentials must be disclosed in this section.

6.d. Discounts and Surcharges

Exhibits illustrating all current and proposed discounts and surcharges for each applicable coverage must be disclosed in this section.

6.e. Calculation of Final Rates

The filing must clearly describe and show how current base rates by coverage are transformed into proposed base rates through the filing of the proposed rate change in combination with any off-balance.

6.f. Calculation of Rate Level Change and Average Rate

The filing must clearly describe and show how the rate level impact of changes to base rates, differentials and discounts or surcharges, in combination with any off-balance which may be applied, are used to calculate the overall rate level change on a per coverage basis. This calculation should reconcile with the Proposed Overall Rate Level Change from Appendix A, Question 4a or Question 12, if applicable.

The insurer must provide the background and detailed calculation to support the current and proposed average rate calculation under Question 4b of Appendix A.

6.g. Dislocation and Rate Capping

Capping of rates is a tool that insurers employ to limit dislocation of premium and, thereby, improve retention where revisions to rating programs create substantial changes in the distribution of premium among risk profiles. The principal causes of such dislocation are revision of relativities for existing rating variables or introduction of a new algorithm with new rating variables, though it could relate to acquisition of a portfolio.

Insurers have the option to apply capping to premium and can use capping so as to preserve overall premium level provided:

- the capping measure only applies for two annual renewal cycles. However, insurers can request a longer capping period if the need is supported. The AIRB may approve a longer period after careful analysis;
- the insurer provides the estimated impact of the proposal including capping for the first year that the revised rating program is in force
  - Insurers who are introducing a new capping procedure are required to demonstrate that the after-capping rate change not exceeding the before-capping rate change.
  - Insurers who had a filing(s) within the past policy year and are planning to continue with the previously approved capping procedure are required to demonstrate that the combined after-capping rate change not exceeding the before-capping rate change; and
- no further capping measure can apply to the particular rating program (e.g., private passenger) until any existing capping exercise is exhausted. Insurers must provide the "uncapped" overall proposed rate level change along with the "capped" overall proposed rate level change in a rate filing where capping is proposed.

Insurers must provide the "uncapped" overall proposed rate level change along with the "capped" overall proposed rate level change in a rate filing where capping is proposed. The capped overall proposed rate level change cannot exceed the uncapped level, unless it is due to the previously approved capping procedure, then the AIRB may consider accepting it.

SECTION 7: OTHER THAN PRIVATE PASSENGER AUTOMOBILE - DEPENDENT CATEGORIES

For those categories of automobile insurance that are dependent on the Other than Private Passenger rate filing submitted, please provide the following:

(i) the rate level effects of the proposed changes for each coverage;

(ii) the calculations that validate the rate level effect of the proposed changes; and

(iii) a copy of the rating rule that stipulates the linkage to the category of automobile insurance.

SECTION 8 MANUAL PAGES CONTAINING REVISED RATES AND RATING PROGRAM

A proposed set of manual pages with rating rules, discounts, surcharges, endorsement, or definition changes must be provided with the filing. A proposed set of manual pages that contain the rates by territory and class, driving record, etc. is optional at the time of submitting the filing.

Any changes or additions to the rating rules, definitions or text in the proposed rate manual should be denoted by a sidebar.

A final and complete set of manual pages, outlining algorithm, differentials, discounts, surcharges, rating rules, endorsements and definitions, in electronic format by email or secure document transfer system containing the approved rates and rating program must be submitted within 30 days after the rate filing has been approved. The electronic copy of the complete rate manual submitted to the AIRB must be identical to any hard copies or versions

that are being distributed to anyone, including brokers, agents or other vendors. The insurer is required to include a copy of the most current vehicle rate group tables in the complete manual or clearly reference the table in use by year and type.

SECTION 9: RATING EXAMPLES

Appendix C sets out fifteen rating examples for non-private passenger vehicles. Each insurer must file with the AIRB those rating examples that would be affected by the filing. Also, the AIRB may require additional and/or different rating examples as a consequence of the review process. The rating examples must be provided in Excel format.

The rating examples must be completed according to the risk description specified. Each insurer must provide both current and proposed rating criteria for each of the rating examples as required on an un-capped basis.

Any additional information pertaining to the rating example must be disclosed with a detailed description for each affected rating example.

Specific instructions and key assumptions that should be adopted when completing these rating examples are:

- All rates are to be stated on an annual basis. If annual policies are not issued, the rates should be converted to an annual basis.
- All risks should be rated strictly according to the information provided. DO NOT provide preferred rates unless the criteria as stated fit the eligibility rules for a preferred class. If so, provide only the preferred rates, and state so.
- Clearly identify all applicable surcharges/discounts that apply to each coverage.

  If a rating example does not describe a unique rate, the insurer is to provide the highest and lowest rate that could be charged on the described risk, and disclose the assumption underlying the difference.

The Appendix C is optional at the time of submitting the filing. A final and complete set of Appendix C must be submitted within 30 days after the rate filing has been approved, together with the submission of the final version of manual pages.